



GOVERNMENT OF PUERTO RICO
DEPARTMENT OF THE TREASURY
PO BOX 9022501 SAN JUAN PR 00902-2501

INDIVIDUAL INCOME TAX RETURN 1998

MESSAGE FROM THE SECRETARY OF THE TREASURY

Dear taxpayer:

1998 has been a year of great challenges and accomplishments for our Island.

In September, nature unleashed upon us the fury of Hurricane Georges, which disrupted all basic services in Puerto Rico and left homeless many of our brethren. But our people rose to the occasion and worked hand-in-hand to achieve a quick and effective recovery, one which evidences our capacity and will to overcome obstacles. We at the Department of the Treasury joined forces with other governmental agencies to achieve this goal, and today we are proud of our contribution.

But we still have much to do, many goals to achieve.

We continue to work each day, devotedly and earnestly, to improve and renew the Island's infrastructure and quality of life in Puerto Rico. Change can be felt already, with the development of social justice programs such as the Education Reform, the Health Insurance Card and the New Safe Home Program, as well as major public works such as the Urban Train, the Superaqueduct, and improvements to our road system.

Our commitment in the Department of the Treasury is and has always been to work hard to achieve such goals, to promote the social and economic development of Puerto Rico through a fair and equitable tax structure, so that we can build the Puerto Rico that we want for future generations. We count on your cooperation in this endeavor.

Fulfill your obligation to our people; it is your responsibility. File your return by April 15. Together we can build a new Puerto Rico for a new millenium.

Remember, in Hacienda we are at your service.

Cordially,

Xenia Vélez Silva

SHORT FORM

If you file on a calendar year basis or if you do not keep accounting records, you must file your return on or before April 15, 1999.

TABLE OF CONTENT

Filing Requirements	3
Relevant Facts	4
Taxpayer's Bill of Rights.....	7
Suggestions to Avoid Mistakes when Filing your Return.....	8
Instructions to Complete the Short Form Return:	
Name, Address and Social Security Number.....	9
Change of Address	9
Taxpayer Deceased during the Taxable Year	9
Taxpayer Moved to Puerto Rico during the Year	9
Part 1 - Taxpayer's Information	9
Part 2 - Adjusted Gross Income	10
Part 3 - Deductions, Personal Exemption and Exemption for Dependents.....	11
Part 4 - Tax Computation, Credit and Tax Withheld or Paid.....	12
Part 5 - Head of Household and Exemption for Dependents.....	14
Signature of the Return	15
Payments for the Preparation of the Return	15
Instructions to Complete the Schedules:	
Schedule H - Income from Annuities or Pensions	16
Schedule I - Ordinary and Necessary Expenses	16
Schedule CH - Release of Claim to Exemption for Child (Children) of Divorced or Separated Parents.....	17
Schedule CV - Cost of Living Analysis.....	18

FILING REQUIREMENTS

WHO MUST FILE THE INCOME TAX RETURN?



- a) Every individual resident of Puerto Rico who is single (or married not living with spouse), that during the taxable year has a gross income over \$3,300;
- b) Every individual resident of Puerto Rico who is married living with spouse, that during the taxable year has individually or jointly, a gross income over \$6,000;



- c) Every individual not resident of Puerto Rico, citizen of the United States, who is single (or married not living with spouse), that during the taxable year has a gross income over \$1,300, unless the taxes have been totally paid at source;
- d) Every individual not resident of Puerto Rico, citizen of the United States, who is married living with spouse, that during the taxable year has individually or jointly, a gross income over \$3,000, unless the taxes have been totally paid at source; or
- e) Every nonresident alien who has gross income from sources within Puerto Rico, unless the taxes have been totally paid at source.

WHO MUST FILE THE SHORT FORM?

Every individual who meets the following requirements must file the **Short Form**:



- * Your gross income is \$75,000 or less.
- * Your income consists only of salaries and wages subject to withholding in Puerto Rico, tips, wages from the Federal Government or payments from annuities and pensions.
- * You claimed the standard deduction (do not itemize).
- * You did not claim credit for foreign taxes paid, or for an investment in a Tourism or Capital Investment Fund, for direct investments, or for an investment in an agricultural business.
- * You are not required to file an Estimated Tax Declaration.
- * You are a United States citizen or a resident alien.
- * You do not file under the status of married filing separate returns.

If you do not meet all these requirements, you must file the **Long Form**.

WHEN THE RETURN MUST BE FILED?

APRIL						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

If you file on a calendar year basis or do not keep accounting records, you must file your return on or before **April 15, 1999**.

WHERE THE RETURN MUST BE FILED?

The return can be mailed to the following address:



1998 RETURN

- | | |
|---|---|
| <p>a) Returns with Refund:
 DEPARTMENT OF THE TREASURY
 PO BOX 50072
 SAN JUAN PR 00902-6272</p> | <p>b) Returns with Payment and Others:
 DEPARTMENT OF THE TREASURY
 PO BOX 9022501
 SAN JUAN PR 00902-2501</p> |
|---|---|

For your convenience **we are enclosing two envelopes with different addresses and colors**, whichever applies. Make sure to use the correct one.

You can also deliver your return to the Department of the Treasury at Intendente Alejandro Ramírez Building in Old San Juan, at the District Offices, at the Internal Revenue Collections Office of your Municipality, or at the Tax Orientation Centers.



RELEVANT FACTS

AMENDMENTS TO THE PUERTO RICO INTERNAL REVENUE CODE OF 1994, AS AMENDED, APPLICABLE TO THE 1998 TAXABLE YEAR

1) Act 36 of July 19, 1997

Increase in the contributions made to an Individual Retirement Account (IRA) from \$2,500 to \$3,000 (from \$5,000 to \$6,000 in case of married individuals filing a joint return).

2) Act 89 of August 18, 1997

- Increase in the deduction allowed for child care expenses from \$400 to \$600 for one dependent, up to a maximum of \$1,200 for two or more dependents.
- Deduction of \$1,000 from the gross income for young people between the ages of 16 and 25 who work while studying.

For additional information and requirements to claim these deductions, refer to the INSTRUCTIONS TO FILE THE RETURN.

ENVELOPE TO SEND THE RETURN

In order to facilitate processing the return, we have enclosed 2 envelopes with different addresses and colors: a yellow one for returns with refund and a white one for returns with payment and others, and for returns with payments through electronic transfer. In the white one, you must check the corresponding box. Make sure to use the correct one.

ORGANIZING THE RETURN

In order to facilitate processing the return, we recommend to organize the same in the following order:

- First** : Short Form
- Second** : Attach the check, if any, to the upper part of the return's first page.
- Third** : Withholding statements (i.e. W-2).
- Fourth** : Any evidence of deductions and credits claimed.
- Fifth** : Schedules in alphabetical order.

FEDERAL EMPLOYEES - Exclusion of Cost of Living Allowance (COLA):

The COLA received by civil employees of the Federal Government is excluded from the gross income up to the amount exempt under the Federal Internal Revenue Code, if the taxpayer meets the following requirements:

- 1) The taxpayer submits evidence showing the amount received.
- 2) The taxpayer filed income tax returns during the last four taxable years, if required to.
- 3) The taxpayer paid the exigible tax liability, or in case of having debts in arrears, has an approved and up to date payment plan.

WITHHOLDING STATEMENT

Every employer must provide the Withholding Statement (Form 499R-2/W-2PR) to the employees not later than January 31 of every calendar year.

If you have not received your Withholding Statement or if it is incorrect, you must contact your employer. Only your employer can provide or correct the form. If you have not received such form, you may contact the Employer's Investigation Section of the Department of the Treasury in San Juan at 721-2020, extensions 2641 and 2642.

ELIMINATE COLUMN OF CENTS

While completing the tax return, the column of cents will not be used. **It is important to remind you that is not about rounding off, but eliminating the cents. See the following examples:**

$$\$480.90 = \$480$$

$$\$480.25 = \$480$$

PAYMENTS FOR THE PREPARATION OF THE RETURN

If you pay for the preparation of your return, the signature and registration number of the specialist are required in your return. The Code establishes administrative and penal sanctions to those income tax return specialists that do not provide this information.

RETURN WITH CHECK

Every taxpayer who sends a check with the return, must attach the same to the upper part of the return's first page. This will allow us to apply the payment promptly and minimize mistakes in processing the return. It is important that you use the white envelope with the address for Returns with Payment and Others.

PAYMENT OF TAX THROUGH ELECTRONIC TRANSFER

You may pay the total or the first installment of income tax declared in the 1998 income tax return through electronic transfer using the telephone. You may also make the second installment of income tax using this method. This service is exclusive for clients of the participating banking institutions. You must have your social security number and bank account number at the moment of making the call.

Procedure:

1. Call your banking institution and ask for this service.
2. In the space provided for this purpose on line 18(b) of the return, write the transaction number provided by your banking institution.
3. In the upper left part of the return's envelope (below the words **return with payment and others**), check the box corresponding to payment through electronic transfer.
4. Mail your return on or before April 15.

For additional information, please call the Taxpayer Service Office at **724-6666** or **1-800-981-7666**.

OVERPAYMENT APPLICATION

Any overpayment will be applied against any exigible tax liability imposed by the Code. If married, and one of the spouses owes taxes, the overpayment may be applied to the spouse's debt.

RETENTION OF REFUND FOR THE CONCEPT OF CHILD SUPPORT

If you are a parent who has the obligation to provide child support to your children through the Child Support Administration (ASUME) and you owe said pension, your refund may be retained.

The Act No. 86 of August 17, 1994, as amended, authorizes ASUME to notify to the parent owing child support about the intention of submitting his or her name to the Secretary of the Treasury in order to retain the income tax refund to pay the child support debt.

The taxpayer will have a 10 day period from the date of notification to object the same. If he or she does not object during said period, the name will be submitted to the Secretary of the Treasury, in order to send the tax refund, if any, to ASUME.

If you understand that the retention does not proceed, you should file a claim at the nearest ASUME Office.

SCHEDULE OF RELEASE OF CLAIM TO EXEMPTION FOR CHILD (CHILDREN) OF DIVORCED OR SEPARATED PARENTS

The parent with the right to custody of minor children will use Schedule CH to release the exemption for dependents to the parent not having the right to custody. The release will be effective for the current year and future years.

For more information on how to complete this schedule, refer to INSTRUCTIONS TO COMPLETE THE SCHEDULES.

SCHEDULE OF COST OF LIVING ANALYSIS

We have included the Schedule of Cost of Living Analysis (Schedule CV), which should be completed before preparing your return. To complete the same, refer to INSTRUCTIONS TO COMPLETE THE SCHEDULES.

AMENDED RETURN

If after filing your original return, you find out that you omitted some income, did not claim certain deduction or credit, or claimed a deduction or credit for which you do not qualify, you must amend the return. **For this purpose you must complete an Amended Return (Form 483X).**

Such return must be filed within 4 years from the date the original return was filed.

SERVICES TO TAXPAYERS

Technical advice:

For additional information on the technical matters of this booklet or to clarify any doubts, please call **721-2020 (ext. 3611)** or **1-800-981-9236**.

Claims and refunds:

For claims or inquiries about the status of your refund, please call **721-2020 (ext. 3610)** or **1-800-981-7666**.

HACIENDA MAKING CONNECTION

The Department of the Treasury now has a site on the **INTERNET**. Here you can access information about the Total Quality Management Policy, our Vision, Mission and Organizational Values. Also, we include information about our Taxpayer's Bill of Rights and the Department's Organizational Structure. Besides, you can use the program for the preparation of the 1998 Income Tax Return for Individuals and information about our tax orientation system *TeleHacienda*. You can access our site at: **<http://www.hacienda.gov.pr>**. Also, you can let us know your opinion through our E-MAIL at: **hacienda @ www.hacienda.gov.pr**.

This service is available only in Spanish.

TAXPAYER'S BILL OF RIGHTS

The Taxpayer's Bill of Rights grants the following rights under the Code:

To receive a proper, considerate and impartial treatment.

Confidentiality of the information submitted.

All interviews must be at a reasonable time and place for the taxpayer, in coordination with the employees of the Department of the Treasury (Department).

The interview or audit must not be used to harass or intimidate in any manner the person interviewed.

To receive an explanation of the process to which the taxpayer will be exposed and subject, and the rights that assist him.

Be assisted by an attorney, accountant, certified public accountant or any other authorized person, at any moment during the interview.

Be informed prior to the interview, of the intention to tape the interview and to be able to obtain an exact copy of such recording prior to the payment of the cost thereof.

Be informed of the nature of your tax liability.

Be advised of your right against self-incrimination, to remain silent and that your silence should not be taken or commented against you, in case of a possible exposure to a criminal action.

Consult and be advised by an attorney, accountant, certified public accountant, or authorized agent to represent you within the Department, or to be able to finish the interview even when it had commenced.

Be notified in writing of any adjustment made by the Department as a result of a tax audit when it involves the addition of interest, penalties and surcharges, as provided by the Code, as well as the exact amount of the adjustment and the reasons for such changes.

Waive the rights described in the preceding paragraphs, if such waiver is made knowingly and voluntarily.

Grant a written power to authorize any person to represent you during a tax interview or process. Such person shall receive, for purposes of the interview, equal treatment as you, unless you are notified that such person is responsible for an unreasonable delay or interference with the audit.

Not to be discriminated because of race, color, sex, birth, origin or social condition, or political, religious ideas or association of any taxpayer or his representative. No records will be maintained containing tax information for these purposes.

The Department's employees will explain and protect your rights during all phases of the process. If you believe that your rights have been violated, you should discuss this matter with the supervisor of the employee. If you do not agree with the action taken by the supervisor, you may file a complaint with the Office for the Protection of Taxpayer's Rights.

OFFICE FOR THE PROTECTION OF TAXPAYER'S RIGHTS

The Office for the Protection of Taxpayer's Rights (Ombudsman of the Taxpayer) was created to assure the compliance of the provisions of the Taxpayer's Bill of Rights. Said office is located at the Department of the Treasury in Old San Juan, Office 800. For assistance, please call **723-1080** or **721-1532**.

The Ombudsman of the Taxpayer is responsible for attending to the problems and claims of the taxpayers and to facilitate the process between the taxpayers and the Department of the Treasury. Also, the Ombudsman of the Taxpayer has authority to prevent or correct any infringement, by any employee of the Department, of the rights of the taxpayer.

For additional information, you can request the booklet: "*Carta de Derechos del Contribuyente*".

SUGGESTIONS TO AVOID MISTAKES WHEN FILING YOUR RETURN

1. Notify any change of address in Form SC 2898 (Change of Address).
2. Verify that your social security number is the one shown in the Withholding Statement .
3. In the case of a married couple filing jointly, the return must be filed under the husband's name.
4. **Include all Withholding Statements (Forms 499R-2/W-2PR or W-2) with your return.**
5. Include the original documents to evidence contributions to Individual Retirement Accounts (IRA).
6. If you claim ordinary and necessary expenses, make sure that you only claim the smaller of 3% of your adjusted gross income, \$1,500 or the amount actually incurred.
7. If you claim automobile loan interest, make sure not to exceed \$1,200.
8. **Do not include your spouse as a dependent.** A married individual living with his spouse is not a head of household for tax purposes, therefore, he should not include the wife's name on the box for head of household.
9. **If a dependent entitles you the head of household filing status, do not claim an additional exemption for that dependent.**
10. Complete Part 5 with all the information regarding your dependents.
11. In the case of **university students**, include an official certification from the registrar of the institution.
12. In the case of **blind or disabled** dependents, submit a recent medical certificate including the doctor's license number.
13. Sign your return with **ink** and in the case of a joint return, make sure that both spouses sign it.
14. Use the correct tax return form that applies to you: Short Form or Long Form.
15. Make sure to choose **the envelope with the applicable address** in order to send your return: **Yellow Envelope for Returns with Refund or White Envelope for Returns with Payment and Others, and for Returns with Payment through Electronic Transfer.** Make sure to check the corresponding box in the white envelope.

INSTRUCTIONS TO COMPLETE THE SHORT FORM RETURN

NAME, ADDRESS AND SOCIAL SECURITY NUMBER

The mailing label that is on the back of the instructions booklet should be placed on the upper section of page 1 of the return. Its purpose is to allow us to process promptly the return and avoid mistakes that could delay any notice from the Department.

If you did not receive the labeled return through the mail, print with ink or type the required information on the spaces provided.

CHANGE OF ADDRESS

If there is a change in your address, check the corresponding box and use **Form SC 2898 (Change of Address)**. This allows us to keep our records up to date and send you any notice to the correct address.

TAXPAYER DECEASED DURING THE TAXABLE YEAR

If a taxpayer dies during the taxable year, the administrator or representative must file an income tax return including the income derived until the date of death, on or before the 15th day of the fourth month following the date of death. Such return shall be signed by the administrator or representative. If the taxpayer was married and living with his/her spouse, two returns will be filed: one including both spouses' income from January 1st to the date of death, and another with the surviving spouse's income for the remaining months of the year.

The personal exemption in the first return will be married living with spouse. In the second one, the surviving spouse can claim the personal exemption he or she is entitled to at the end of the taxable year.

The person filing the return must identify the same by writing on the upper part **Deceased during the year**, indicating the date of death and enclosing a copy of the Death Certificate .

TAXPAYER MOVED TO PUERTO RICO DURING THE YEAR

If you were a resident of another country and changed your residence to Puerto Rico during the taxable year, you must inform the Government of Puerto Rico the income received from that moment until the end of your taxable year and the income from sources within Puerto Rico while not residing in Puerto Rico.

A taxpayer's residence is determined based upon the facts and circumstances of each case. Generally, an individual is considered a bona fide resident of Puerto Rico if he/she resides in Puerto Rico at least 183 days during the calendar year. However, if his/her intention regarding to his/her stay is merely temporary, his/her family is outside of Puerto Rico and meets other requirements, even when he/she had been in Puerto Rico 183 days or more, he/she may not be considered a bona fide resident of Puerto Rico.

The income from sources outside of Puerto Rico received by an individual attributable to the period when he/she was not a resident of Puerto Rico is not taxable in Puerto Rico. Deductions attributable to amounts so excluded from the gross income will not be allowed.

Nonresident individuals will be taxed in Puerto Rico only on their income from sources within Puerto Rico.

If the individual changes his/her residence from Puerto Rico to the United States or a foreign country, he/she will include in the Puerto Rico income tax return all the income earned until the date he/she changed his/her residence to the United States or a foreign country, independently of the source of said income. Also, he/she will include in his/her income tax return the income from sources within Puerto Rico earned after the change of residence.

PART 1 - TAXPAYER'S INFORMATION

QUESTIONNAIRE

Check (X) the applicable box to indicate if you are a United States citizen and if you were a resident of Puerto Rico at the end of the taxable year. Also, you must inform if you received tax exempt income

during the year. **You must submit a schedule detailing it.** Indicate if you make child support payments through the Child Support Administration (ASUME).

HIGHEST SOURCE OF INCOME

Check (X) the applicable box in accordance with your principal source of income.

FILING STATUS AT THE END OF THE TAXABLE YEAR

Check (X) only one filing status at the end of the taxable year:

- a) **Married living with spouse** - This filing status is for those individuals that, at the end of the year, are legally married and living together with his or her spouse. If your spouse died during the year and you did not remarry in said year, you must file a return as married living with spouse up to the date of the death, and another as single or as head of household, from the date of the death up to the end of the year. **You must submit your spouse's name and social security number.**
- b) **Married not living with spouse** - This filing status is for those individuals that at the end of the year are not legally separated from their spouses and do not qualify as head of household. **You must submit your spouse's name and social security number.**
- c) **Head of household** - This filing status is for those individuals, not married, who really support and maintain in one household, one or more dependents closely related to them by blood, marriage or adoption. If you are not legally separated from your spouse, you can qualify as head of household subject to compliance with the requirements of the Code and its regulations.
- d) **Single** - This filing status is for those individuals that have never been married, are legally separated by a divorce decree or those who are widows and have not remarried at the end of the taxable year.

PART 2 - ADJUSTED GROSS INCOME

Line 1 - Wages, Commissions, Allowances and Tips

Enter on line 1, Column B, all the wages, commissions, allowances and tips subject to withholding in Puerto Rico received by you (and spouse, if applicable) during the taxable year. This information is found in Part 12 of the Withholding Statement (Form 499R-2/W-2PR). Enter on line 1, Column A, the Puerto Rico income tax withheld by each one of your employers shown in Part 14 of your Withholding Statement. If there is no tax withheld, enter zero.

Enter in the space provided in Part 2, line 1, the number of withholding statements included with your return.

Add the amounts of Column A and enter the total income tax withheld at the bottom of the column. Add the amounts in Column B and enter the total of wages, commissions, allowances and tips at the bottom of that column.

Make sure to include with your return all the pink copies of the Withholding Statements (Form 499R-2/W-2PR), so that we can process it.

Line 2 - Federal Government Wages

Enter the total of Federal Government income from salaries and wages received, excluding the Cost of Living Allowance (COLA). To determine if you qualify for this exclusion, refer to RELEVANT FACTS - FEDERAL EMPLOYEES.

Also, you can refer to the "*Informative Booklet to Provide Orientation on the Income Tax Responsibilities of Federal, Military and Other Employees*".

Submit with your return copy of Form W-2 and the Certificate of Compliance with Tax Responsibility in the Case of Federal Government Employees who qualify for the COLA exclusion.

Line 3 - Income From Annuities and Pensions

Enter the income from pensions determined on Schedule H, Part II, line 12. For additional information, see INSTRUCTIONS TO COMPLETE THE SCHEDULES.

You must submit Schedule H with your return.

PART 3 - DEDUCTIONS, PERSONAL EXEMPTION AND EXEMPTION FOR DEPENDENTS

Line 6 - Standard Deduction and Personal Exemption

Enter the amount of your standard deduction and personal exemption corresponding to your filing status. If you are married filing jointly, enter \$6,000; if married not living with spouse, enter \$3,300; if head of household, enter \$5,600; if single, enter \$3,300.

Line 7 - Additional Deductions

In addition to the standard deduction, you are entitled to claim the following deductions. **You must include the evidence in the same order as the deductions appear on the form.**

Line 7A - Contributions to governmental pension or retirement systems

Enter all cash contributions made during the year to a pension or retirement system, other than Social Security, established by the Congress of the United States, the Legislative Assembly of Puerto Rico, the municipalities, agencies, instrumentalities and public corporations of Puerto Rico.

This contribution must be informed in the Withholding Statement (Form 499R-2/W-2PR) or in Form W-2, if you are a federal employee. **If such contribution is not reported in Form W-2, you must submit the last payment stub of the calendar year.**

Line 7B - Contributions to an Individual Retirement Account

Enter all contributions made to a qualified Individual Retirement Account (IRA). **The maximum deduction for an individual is \$3,000** or your adjusted gross income from salaries or the earnings attributable to professions or business, whichever is smaller.

In order to claim this deduction, the IRA must constitute a trust created or organized under the laws of the Commonwealth of Puerto Rico.

In the case of married taxpayers filing a joint return, this deduction cannot exceed \$6,000 or your aggregated adjusted gross income from salaries or the earnings attributable to professions or business, whichever is smaller. However, the deduction for each spouse cannot exceed \$3,000.

No deduction is allowed for the taxable year in which the individual has reached 70 1/2 years of age on or prior to the end of the taxable year and thereafter.

The taxpayer will have until April 15, or until the due date of any extension of time granted by the Secretary to file the return, to make a contribution to his/her IRA.

To be entitled to this deduction, you must submit with your return an original certification from the bank or institution in which you opened your account. Said certification will include the amount of the contribution and the taxable year for which it was made.

Line 7C - Deduction when both spouses work, receive earned income and file a joint return.

Enter \$300 if the taxpayer is married living with spouse and filing jointly, and both spouses receive earned income. If your filing status is married filing separately, you are not entitled to claim this deduction.

The term **earned income** shall mean income from salaries, wages, earnings, professional fees and other amounts received as compensation for personal services actually rendered. The amount received by a taxpayer or his spouse from annuities or pensions is not considered earned income.

Line 7D - Deduction for Veterans

Enter **\$500** if you are a resident of Puerto Rico and a veteran of the United States Armed Forces.

Submit copy of Form DD-214 (Discharge of U.S. Armed Forces) with your return. Once Form DD-214 is submitted for the first time, you do not have to submit it again.

Line 7F - Automobile loan interest

Enter the interest paid or accrued on a loan for the acquisition of an automobile which is guaranteed by it. **The deduction will not exceed \$1,200 and it shall be allowed for only one vehicle.**

You must submit with the return a certification from the bank or financial institution as evidence of the deduction claimed.

Line 7G - Young people who study and work

Enter the amount of **\$1,000** if you are a young person who, at any moment of the taxable year, are between 16 and 25 years old who study and work.

To claim this deduction, the young person must submit copy of his/her Birth Certificate and a certificate from the high school (public or private) or college where the young person studies.

Line 8 - Exemption for Dependents

Enter in the spaces provided in Part 3, lines 8A through 8C, the number of dependents according to their category:

Line	Category	Class
8A	(N)	Non university
8B	(U)	University student
8C	(I)	Disabled, blind or age 65 or older

Multiply the amount of dependents claimed on each line by the total exemption indicated in the return and enter the result in the space provided. Add lines 8A, 8B and 8C and enter on line 8D.

The Code requires you to indicate in your return the social security number of any dependent claimed who is age one or older at the end of the taxable year. When filing your return, you shall include the name, date of birth, relationship, and social security number of each dependent claimed. **If you do not meet these requirements, the dependent will be rejected.** If the dependent does not have a social security number, you must request one at the nearest Social Security Office.

The dependent who qualifies you for the head of household filing status cannot be included in the computation of the total exemption for dependents.

For the **definition of dependent**, refer to instructions for Part 5.

PART 4 - TAX COMPUTATION, CREDIT AND TAX WITHHELD OR PAID

Line 11 - Tax Determined

Use the following Table to compute your tax. Determine your tax taking into account your Net

Taxable Income (Part 3, line 10). Enter the total tax on this line.

TAX COMPUTATION TABLE

For married person living with spouse and filing jointly, married person not living with spouse, single person, head of household, estates or trusts

If your net taxable income (line 10) is:	Your tax will be:
Not over \$2,000	8%
Over \$2,000 but not over \$17,000	\$160 plus 12% of the excess over \$2,000
Over \$17,000 but not over \$30,000	\$1,960 plus 18% of the excess over \$17,000
Over \$30,000 but not over \$50,000	\$4,300 plus 31% of the excess over \$30,000
Over \$50,000	\$10,500 plus 33% of the excess over \$50,000

Line 12 - Credit for Contributions to the Educational Foundation for Free Selection of Schools

All resident individuals are entitled to claim as a credit against income tax the contributions made to the **Educational Foundation for Free Selection of Schools**.

The amount of credit allowed must not exceed \$250. Any excess may be deducted as a charitable contribution up to the limit allowed by the Code. If the contribution is in excess of the limit allowed by the Code, you should file the Long Form return.

In order to claim said credit, you must submit a certification from the Educational Foundation or copy of the canceled check to evidence the contribution made.

Line 15 - Amount of Tax Due

Compare the amount on lines 13 and 14C. If line 13 is larger than line 14C, there is a balance of tax due. Enter the difference on this line. If the amount on line 14C is larger than the amount on line 13, you have a tax overpayment. Enter this



difference plus the amount paid, if any, with the automatic extension of time to file the tax return (line 16) on line 20.

Line 16 - Amount paid with automatic extension of time

If for any reason you cannot file your return on time, you may request an automatic extension of time on or before the due date for the filing of the return. This will be done by filing **Form SC 2644**. **You must pay with your extension of time at least 50% of the balance of tax due.**

Line 18 - Amount Paid

You may pay your tax sending the payment with the return or through electronic transfer. If a payment is sent with the return, you must enter the amount on line 18(a). If you made a payment through electronic transfer, you must enter the amount on line 18(b). In this case, you must also indicate the transaction number provided by your banking institution. For additional information about payment of tax through electronic transfer, refer to RELEVANT FACTS.

You may elect to pay the balance of tax due (line 17) in two equal installments. The first installment must be paid not later than the date established by the Code to file the return (April 15, when the return is filed on a calendar year basis) and the second installment must be paid on or before the 15th day of the 6th month following that date (October 15, when the return is filed on a calendar year basis). **You will lose the option to pay the tax in two installments if you do not include with your return at least half of the amount of the balance of tax due.**

If you made a payment with your request for automatic extension of time and it was less than 50% of the balance of tax due (line 15), you must pay with your return the balance of tax due less the amount paid with the extension (line 17). Interest will be charged from the original due date of the return to the date of payment.

If you made a payment with your request for automatic extension of time on or before the date in which you should have filed the return, and the payment was 50% or more of the balance of tax due (line 15), you may pay the remaining balance on or before October 15. In that case, no payment is required with the return.

If you decide to pay the balance of tax due in two installments, enter the amount you are paying with your return on line 18(a) or 18(b).

Make your check or money order payable to the Secretary of the Treasury. **Indicate your social security number and Form 481.0 - 1998 on the check or money order.**

If you decide to pay in cash, you can do it at any of our Internal Revenue Collections Offices. Make sure to obtain an official receipt from the Collector at the time of payment.

INTEREST, SURCHARGES AND PENALTIES

Interest

The Code provides for the assessment of interest at a 10% annual rate over any tax balance that is not paid by its due date.

Surcharges

In case that imposition of interest is applicable, a surcharge of 5% of the amount due will be assessed, if the delay in paying exceeds 30 days, but not over 60 days; or 10% of the amount due, if the delay exceeds 60 days.

Penalties

The Code imposes a progressive penalty from 5% to 25% of the total tax for late filing unless you can show reasonable cause for the delay.

Any person required under the Code to file a return or declaration, and who voluntarily fails to file such return or declaration within the term or terms required by the Code or regulations, in addition to other penalties, shall be guilty of a misdemeanor and punished by a fine of not more than \$500 or imprisonment for a term of not more than 6 months, or both penalties, plus the costs of prosecution.

If any person voluntarily fails to file the above mentioned return or declaration (within the terms required by the Code or regulations) with the intention to avoid or defeat any tax imposed by the Code, in addition to other penalties, shall be guilty of a felony and punished by a fine of not more than \$20,000 or imprisonment for a fixed term of 3 years, or both penalties, plus the costs of prosecution. If there were aggravating circumstances, the established fixed jail penalty may be increased to a maximum of 5 years; if there were extenuating circumstances, it may be reduced to a maximum of 2 years.

Line 19 - Balance of Tax Due

This is the amount of tax that you owe and that you must pay on or before October 15 or, if you are filing on a fiscal year basis, on or before the 15th day of the 6th month after the due date of the return.

Line 20 - Amount to be Refunded

If line 14C is larger than line 13, or if line 16 is larger than line 15, you have an overpayment. Enter the difference on this line.

Before issuing a refund, any overpayment will be applied against any exigible tax liability imposed by the Code.

If you are married and any of the spouses owes taxes, the overpayment will be credited against any exigible tax liability of either one.

PART 5 - HEAD OF HOUSEHOLD AND EXEMPTION FOR DEPENDENTS

The term **head of household** means an individual who actually supports and maintains in one household one or more dependents closely related with him/her by blood, marriage or adoption, over whom he/she exercises family control, and whose duty to provide for such dependents is based upon moral or legal obligation. The relationship by marriage shall not be considered terminated because of the death or divorce of the spouse.

If you claim the filing status of head of household in Part I, indicate in the space provided the name, date of birth, relationship and social security number of the dependent who entitles you to claim such status.

The term **dependent** means:

- 1) a person who at the close of the calendar year in which the taxpayer's taxable year begins **has not reached the age of 21**;
- 2) the taxpayer's father or mother;
- 3) a person who is **age 65 or older**;
- 4) a person who has reached the age of 21 or older and is blind or incapable of self-support because of being mentally or physically disabled;
- 5) an university student who at the close of the calendar year in which the taxpayer's taxable

year begins, **has not reached the age of 26**, provided he/she has completed as a regular student, at least one semester in an **university institution recognized as such by the educational authorities of Puerto Rico, or of the applicable country, until he/she receives his/her university degree.**

Notwithstanding the above, to be entitled to claim a dependent, you must comply with the following requirements:

- 1) the person claiming the dependent must provide more than half of the support for the dependent during the calendar year in which the taxpayer's taxable year began;
- 2) the dependent's gross income, for the calendar year in which the taxpayer's taxable year began, is less than the amount allowed as a credit for this concept. Nevertheless, if the dependent is your son/daughter and also a regular student, he/she may earn a gross income of up to **\$3,300**, and still you have the right to claim him/her as a dependent.

In the case of children from divorced or separated parents to whom both parents provide more than half of their support, the exemption for dependents will be claimed by the parent who has the legal custody of the children. However, the parent who has the legal custody may release his/her right to claim the exemption in favor of the parent who does not have that custody. The release should be made using **Schedule CH-Release of Claim to Exemption for Child (Children) of Divorced or Separated Parents**. The parent to whom the right to claim the exemption was released, must submit Schedule CH with the return (See **INSTRUCTIONS TO COMPLETE THE SCHEDULES**).

An individual eligible by the Code to file a joint return with his or her spouse, does not qualify as a dependent.

The dependent who qualifies you for the head of household filing status cannot be included in the computation of the total exemption for dependents.

Nonresident aliens of Puerto Rico do not qualify as dependents.

If the dependent is totally or partially blind, include with your return a certificate from an ophthalmologist or optometrist indicating the visual condition of the dependent.

If you claimed the exemption for dependents who are university students, or who are disabled, blind or age 65 or older, you must submit annually with your return the evidence to claim the exemption for those dependents.

In the space provided, **write the complete name, date of birth, relationship and social security number** of all dependents who are age one or older for whom you claim an exemption in your return. **Also, classify the dependent in one of the following categories:**

Category	Class
(N)	Non university
(U)	University student
(I)	Disabled, blind or age 65 or older

If you do not comply with these requirements, the exemption will be rejected.

SIGNATURE OF THE RETURN

The return will not be considered filed unless it is signed and all necessary documents and information are submitted. In the case of married individuals filing jointly, both spouses must sign the return.

PAYMENTS FOR THE PREPARATION OF THE RETURN

If a payment is made for the preparation of the tax return, make sure that the specialist (preparer) signs the return and includes his/her specialist registration number. The Code imposes civil and criminal sanctions to those income tax return specialists that fail to submit this information.

The specialist must declare under penalty of perjury that he/she examined the return, and to the best of his/her knowledge and belief the return is correct and complete.

If the return is prepared by an accounting firm duly registered as a specialist, it must include the firm's employer's identification number and be signed by the employee who prepared such return.

INSTRUCTIONS TO COMPLETE THE SCHEDULES

SCHEDULE H - INCOME FROM ANNUITIES OR PENSIONS

This Schedule must be completed if you received income for annuities or pensions exceeding \$5,000 for individuals younger than age 60, or \$8,000 for individuals age 60 or older. Schedule H provides space to report the income from only one annuity or pension. Therefore, in cases of individuals receiving more than one annuity or pension, a separate schedule should be completed for each annuity or pension. If the taxpayer receives more than one annuity or pension, the exclusion will apply for each annuity or pension separately.

If you receive income from Social Security pension, do not complete this Schedule because the same is not taxable in Puerto Rico. Otherwise, if you bought an annuity through a financial or insurance institution, do not complete this Schedule. Any income received from such annuity must be informed in Schedule F, after considering the annuity's cost to be recovered.

PART I - DETERMINATION OF COST TO BE RECOVERED

Line 1 - Enter the cost of the annuity or pension. The cost of the annuity is the amount that the taxpayer paid in order to be entitled to receive the annuity or pension. Said cost appears in Form 499R-2/W-2PR, Part 7.

PART II - TAXABLE INCOME

Line 7 - Enter the total amount received from annuities or pensions during the year. This information appears in Form 499R-2/W-2PR, Part 12.

Line 8 - Enter \$5,000 if you are younger than age 60, or enter \$8,000 if you are age 60 or older.

If the total amount received during the year exceeds \$5,000 or \$8,000, as applicable, only the excess over such amount will be subject to tax. As long as you are recovering the cost of the annuity or pension, you will be taxed up to 3% of such cost.

If you claim the exempt amount of \$8,000, you must include a copy of your birth or baptism certificate. If you have previously submitted this evidence, it should not be submitted again.

Line 12 - Enter the amount of line 11 or 3% of the cost of the annuity, whichever is larger, but not larger than line 9, until you have recovered the total cost of your annuity or pension tax free.

If the payments received covered less than 12 months, multiply 1/12th from the 3% of the pension cost (line 1) by the number of months for which the pension was received. Enter on line 12 of this Schedule, and in Part 2, line 3 of the return, the amount determined from the above computation, or the amount indicated on line 11 of this Schedule, whichever is larger, but not larger than the amount of line 9.

Line 13 - Enter the income tax withheld, and transfer this amount to Part 4, line 14B of your return.

Submit with your return the Withholding Statement (Form 499R-2/W-2PR) and this Schedule.

SCHEDULE I - ORDINARY AND NECESSARY EXPENSES

The Code provides a deduction for certain ordinary and necessary expenses incurred to derive income as an employee. This deduction is limited to the amount paid up to \$1,500, or 3% of the adjusted gross income, whichever is smaller. The deduction claimed for ordinary and necessary expenses will be subject to a rigorous investigation. Therefore, in order to claim these expenses, you must be entitled to them, and keep the necessary evidence.

PART I - DETAIL OF EXPENSES

Line 1(A) - Enter 100% of expenses for meals and entertainment, which are neither luxurious or extravagant, paid by you as a result of your services as an employee.

Line 1(B) - Enter the amount reimbursed by your employer for meals and entertainment only.

Line 1(C) - Enter the difference between lines 1(A) and 1(B). If the amount on line 1(B) exceeds the amount on line 1(A), such excess constitutes income and you must file the Long Form and include it on Schedule F, Part V.

Line 1(D) - If line 1(A) exceeds line 1(B), enter 50% of the amount on line 1(C). This is the amount of meals and entertainment you will use to determine the deduction for ordinary and necessary expenses.

Line 2(A) - Enter the cost for the purchase and maintenance of uniforms (Do not include civilian clothes. The uniform must identify the business or organization you work for).

Enter on lines 2(B) through 2(D) the expenses incurred for dues paid to unions, college memberships, labor or professional associations, or the purchase by teachers of educational materials, and the purchase of technical books related to professional or technical work.

Line 2(E) - Enter the educational expenses paid during the taxable year to maintain or improve the skills required in your profession or occupation, to comply with the express requirements of an employer, or to comply with the legal or regulatory provisions to maintain your salary or job as an employee. If the taxpayer is a teacher or professor, the educational expenses are allowed whether or not the employer has required you to maintain or improve your skills, but only if the studies completed are usually taken by the members of your profession and result in the benefit of the school population.

Line (2F) - Enter the depreciation of any property used that is related to your employment. Complete the detail on the reverse side (Part II) to determine the deduction.

Assets used in your profession or occupation must be depreciated under the straight-line method.

An automobile may be depreciated over a 3 year period if it is used only in sales activities and over a 5 year period if it is used for other purposes. The maximum basis to determine the amount to be deducted for automobile depreciation will be \$25,000. These rules apply to automobiles leased with a purchase option. In case of ordinary leases, the total amount of rent paid will be considered as basically equivalent to current depreciation, and a deduction is allowed for that part of the rent paid related to your employment.

If the automobile is used by the taxpayer in his/her industry or business, or for the production of income as an employee, and for personal purposes, the deduction for depreciation will be reduced by the amount applicable to personal use.

Line 2(G) - Enter other ordinary and necessary expenses related to your profession or occupation. **Expenses incurred for traveling from your residence to your place of work, or vice versa are not deductible.**

When an employee is transferred from one location to another by request of the employer, and receives a payment for such transfer, or that of his/her family or personal belongings, the amount so paid will be deductible from the employee's gross income. If the payment represents an allowance, the expenses paid or incurred by the employee for his/her transfer can be claimed as ordinary and necessary expenses up to the limit of \$1,500 or 3% of the adjusted gross income from salaries, whichever is smaller. Otherwise, if the payment represents a reimbursement, the expense actually paid or incurred can be deducted up to the amount reimbursed by the employer. Any excess paid with respect to the expenses actually incurred, will be included in the employee's gross income for the taxable year in which said excess was received.

If the transfer is made for the exclusive benefit of the employee, any concession received will be included in the gross income and such expenses are not deductible.

The expenses reimbursed must be informed by the employer in the Withholding Statement (Form 499R-2/W-2PR, Part 13).

Line 3 - Enter the sum of lines 1(D) and 2(K). This is the total amount to be used to determine the ordinary and necessary expenses to be deducted.

Line 4 - Enter the salaries and wages subject to withholding from Part 2, line 1B of your return.

Line 5 - Enter the salaries received from the Federal Government from Part 2, line 2 of your return.

Submit this Schedule with your return.

SCHEDULE CH - RELEASE OF CLAIM TO EXEMPTION FOR CHILD (CHILDREN) OF DIVORCED OR SEPARATED PARENTS

In the case of minor children from divorced or separated parents, the exemption for dependents will be claimed by the parent with the right to custody. However, a minor child will be considered to have received more than half of his/her support

during a calendar year from the parent who does not have the right to custody if:

- 1) the parent with the right to custody signs a Schedule CH, establishing that he (or she) shall not claim said child as a dependent for any taxable year commencing within said calendar year, and
- 2) the parent who does not have the right to custody submits said Schedule with the return for the taxable year commencing within said calendar year.

You may agree to release your claim to the child's exemption for the current taxable year or for future years, or both.

- Complete **Part I** only if you agree to release your claim to the child's exemption for this taxable year.
- Complete **Part II** only if you agree to release your claim to the child's exemption for any or all future years. If you do, write the specific future years or "all future years" in the space provided.

If the custodial parent completed Part II, you must submit a copy of this Schedule with your return for each future year in which you claim the exemption.

SCHEDULE CV- COST OF LIVING ANALYSIS

This Schedule must be completed and kept for your records to be submitted at any moment at the request of the Department of the Treasury in case of an investigation. In this Schedule, you must indicate the total amount of cash received during the year, including the applicable disbursements.

It is very important that you keep all the necessary documents to support the information indicated in this Schedule, in the event it is requested by the Department.



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IMPORTANT:

TAKE OFF AND USE THIS LABEL IN YOUR RETURN IF THE DATA IS CORRECT. IF THERE IS ANY INCORRECT INFORMATION IN THE LABEL, DISREGARD IT AND WRITE YOUR PERSONAL INFORMATION CORRECTLY IN YOUR TAX RETURN AND ON MODEL SC 2898.